

Message Text

LIMITED OFFICIAL USE

PAGE 01 BOGOTA 08209 122235Z

61

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PA-01 PRS-01 AGR-05 ITC-01 FEA-01 /087 W

----- 106306

P 122135Z AUG 76

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 6708

LIMITED OFFICIAL USE BOGOTA 8209

EO: 11652: N/A

TAGS: EFIN ECON CO

SUBJ: ADDITIONAL ANTI-INFLATIONARY MEASURES

REF: BOGOTA 7987

SUMMARY. THE 2.6 PERCENT CONSUMER PRICE INDEX (CPI) INCREASE IN JULY HAS NOW INDUCED THE ADMINISTRATION TO TAKE ADDITIONAL MEASURES TO CURB INFLATION. A NUMBER OF MEASURES WERE PACKAGED, SOME CONSISTENT WITH PAST POLICIES AND SOME NOT, IN ORDER TO CREATE A PSYCHOLOGICAL IMPACT ON INFLATIONARY EXPECTATIONS. ADDITIONAL MONETARY MEASURES ARE EXPECTED TO BE ANNOUNCED WITH THE SAME END IN MIND. END SUMMARY.

1. THE COLOMBIAN GOVERNMENT TOOK AN ADDITIONAL SERIES OF MEASURES TO CONTROL INFLATION THIS WEEK AND TO CONTINUE ITS EVOLVING POLICY OF IMPORT LIBERALIZATION. DUTIES WERE REDUCED AND PRIOR IMPORT LICENSE SUSPENDED ON SOME 300 FOOD AND AGRICULTURE RELATED ITEMS, INCLUDING MEAT, COOKING OIL, CANNED GOODS, CHEESES AND VEGETABLES AND ON AGRICULTURAL INPUTS SUCH AS FUNGICIDES, INSECTICIDES, ETC. THE FOOD PORTION OF THE CPI SHOWED THE SHARPEST INCREASE IN JULY AND CLOTHES THE SMALLEST INCREASE. IN JUNE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BOGOTA 08209 122235Z

CLOTHES PRICES HAD INCREASED SHARPLY SO THE ADMINISTRATION REDUCED

TARIFFS AND LIBERATED CLOTHES IMPORTS. IT HOPES TO DO THE SAME WITH FOOD, BUT THE EFFECT WILL BE AS MUCH PSYCHOLOGICAL AS REAL FOR THERE ARE FEW FOOD STUFF IMPORTS THAT COULD IMPACT GREATLY ON THE CPI. OF THE ITEMS LIBERALIZED IN WHICH IMPORTS COULD HAVE MUCH EFFECT ONLY COOKING OIL HAS A SIGNIFICANT WEIGHT IN THE CPI. (ANALYSIS MIGHT FIND A NUMBER OF EXCEPTIONS.) ITEMS SUCH AS VEGETABLES ARE ALMOST OUT OF THE QUESTION AND IT IS UNLIKELY THAT MEAT IMPORTS COULD BE COMPETITIVE IN ANY SIGNIFICANT WAY. MANY ITEMS SUCH AS CHEESE, CANNED GOODS, SARDINES, ETC., ARE CONSUMED PRIMARILY BY THE MIDDLE AND UPPER CLASSES AND HAVE NO WEIGHT IN THE WORKERS' CPI. THE LIBERALIZATION OF THESE ITEMS IS AIMED AT CONTRABAND IMPORTS AND WAS PROBABLY INCLUDED IN THIS SERIES OF MEASURES TO AVOID THE CRITICISM THAT THE GOVERNMENT WAS SPENDING THE COFFEE BONUS ON LUXURY IMPORTS. MOREOVER, ADDITIONAL PSYCHOLOGICAL IMPACT WAS PROBABLY GAINED BY HAVING AS LARGE A NUMBER OF ITEMS ON THE LIBERALIZATION LIST AS WAS POSSIBLE.

2. THE ADMINISTRATION ALSO RAISED GASOLINE PRICES BY NINE PERCENT, INCREASED THE BUS SUBSIDY, WHICH IT HAD SAID IT WOULD NOT DO, AND PROMISED THAT THERE WOULD BE NO MORE GASOLINE OR TRANSPORTATION PRICE INCREASES DURING THE REST OF THE YEAR. THESE MEASURES PUT THE TRANSPORTATION PROBLEM ON A BACK BURNER, BUT THE COST OF THIS PROCRASTINATION MAY NOT BE HIGH. TRANSPORTATION POLICY IS SO MESSED UP THAT THE MARGINAL COST OF THE PRESENT DECISION IS PROBABLY QUITE LOW. URBAN TRANSPORTATION NEEDS A COMPREHENSIVE POLICY MORE THAN IT NEEDS GRADUAL PRICE INCREASES. THE GASOLINE PRICE FREEZE SIMILARLY PUTS OFF AND MAKES MORE SERIOUS THE CHANGES THAT MUST BE MADE NEXT YEAR. THE MINISTER OF FINANCE IS PROBABLY CONFIDENT THAT INFLATION NEXT YEAR WILL BE LOW ENOUGH (AS HE AND WE BELIEVED LAST YEAR) THAT GASOLINE PRICE INCREASES CAN BE STEPPED UP. WHILE THE MEASURE MAY NOT BE WHOLLY WISE IN STRICTLY ECONOMIC TERMS (ALTHOUGH THE ECONOMIC COSTS DEPEND ON SOMETHING AS GENERALLY NON-COMPREHENSIBLE AND IN COLOMBIA NON-MEASURABLE AS PRICE ELASTICITY) THE ADMINISTRATION OBVIOUSLY FELT THAT THE FREEZE WAS POLITICALLY JUSTIFIED. WORKERS WERE SEEING THEIR INCREASED MINIMUM WAGE DISSOLVE MONTHLY WITH HIGHLY VISIBLE BUS FARE INCREASES. THE ADMINISTRATION MUST HAVE BEEN GETTING CONSIDERABLE FEEDBACK FROM POLITICIANS AND UNIONS TELLING THEM THAT THE MONTHLY IRRITATION OF GRADUAL TRANSPORT COST INCREASES WAS TOO HIGH A POLITICAL COST. THE ADMINISTRATION ALSO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BOGOTA 08209 122235Z

DECREED AN INCREASE IN THE TRANSPORT ALLOWANCE THAT FIRMS MUST PAY THEIR WORKERS. A SHARP GASOLINE PRICE INCREASE IS HIGHLY LIKELY IN JANUARY.

3. THE MONETARY MEASURES WHICH ARE EXPECTED TO BE ANNOUNCED LATER TODAY, (ITEM) PROMISE TO CONTINUE TO TIGHTEN MONEY, CONTROL EXTERNAL BORROWING, INDUCE PRIVATE SAVINGS, AND CONTROL THE EXTBANK MONEY MARKET. THE ONLY MONETARY MEASURE IN YESTERDAY'S

PACKAGE WAS THE SUSPENSION OF PRIOR EXPORT FINANCE FOR COFFEE AND COTTON. THIS MEASURE WILL SLOW DOWN THE DOLLAR INFLOW WITHOUT AFFECTING EXPORTS IN THESE SELLERS' MARKETS. THE MINISTER DID SAY THAT SEVERE MARGINAL RESERVE REQUIREMENTS WOULD NOT BE IMPOSED.

CONCLUSION. EXCEPT FOR THE BUS AND GASOLINE DECISIONS, ALL OF THE MEASURES WERE MODERATE STEPS IN THE DIRECTION THAT POLICY HAS BEEN MOVING SINCE LOPEZ TOOK OFFICE. THEY WERE HANDLED BY THE PRESS AS A MAJOR POLICY INITIATIVE AND THIS IMPRESSION WAS NO DOUBT ENCOURAGED BY THE ADMINISTRATION TO CREATE A PSYCHOLOGICAL IMPACT THAT MIGHT EASE INFLATIONARY EXPECTATIONS. THE TRANSPORT AND GASOLINE POLICIES ARE UNDERSTANDABLE IN A POLITICAL CONTEXT AND PROBABLY CARRY A LOW ECONOMIC COST IF NOT CONTINUED FOR TOO LONG. ONE OF LOPEZ' STRENGTHS SO FAR HAS BEEN HIS ABILITY TO KEEP HIS EYES FIXED ON THE BASIC STRUCTURAL PROBLEMS AND NOT TO OVERREACT TO SHORT-TERM POLITICAL FACTORS. WHILE THE GAS AND BUS DECISION WAS GIVING IN TO SHORT-TERM POLITICAL PRESSURES, WE DO NOT BELIEVE THIS NECESSARILY SIGNALS THE BEGINNING OF A TREND.
SANCHEZ

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ANTIINFLATIONARY PROGRAMS, PRICE TRENDS, IMPORT CONTROLS, RETAIL PRICE INDEXES
Control Number: n/a
Copy: SINGLE
Draft Date: 12 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BOGOTA08209
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760311-0089
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760862/aaaacbov.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 BOGOTA 7987
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 19 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 JUL 2004 by izenbei0>; APPROVED <20 JUL 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ADDITIONAL ANTI-INFLATIONARY MEASURES
TAGS: EFIN, ECON, CO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006